

TRANSCO CONSULTATION REPORT ON PC72

DAILY SYSTEM ENTRY CAPACITY FLOOR PRICES

1. Transco’s Initial Proposal

Ofgem has published potential modifications to Transco’s Gas Transporter licence that include an obligation for Transco to offer unsold baseline SO capacity in a clearing allocation. In PC72 Transco sought views on the proposal that floor prices for Daily System Entry Capacity be set to zero for all entry points. This would enable Transco to meet this proposed licence requirement. Respondents’ views on alternative approaches to meeting the proposed obligation were also sought.

This report sets out the views received and Transco’s response.

2. Summary

There were six responses to the consultation paper.

Shippers & Suppliers	
British Gas Trading	BGT
Innogy	INN
PowerGen	PG
Scottish & Southern Energy	SSE
Shell Gas Direct	SGD
TotalFinaElf	TFE

One respondent (PG) supported the proposal without qualification. Four respondents (BGT SSE SGD TFE) supported the broad principle behind the proposal, but had a number of concerns in practice regarding aspects of the proposal. One respondent (INN) did not support the proposal.

3. Detailed Responses

3.1 Application at ASEPs with Little Competition

Three respondents (SSE SGD TFE) thought it inappropriate to introduce DSEC floor prices of zero at ASEPs where there was little or no competition between Shippers for obtaining capacity. One (SGD) thought it could lead to all or most capacity at such terminals being sold as DSEC. Another (TFE) considered that, as an interim solution, zero DSEC floor prices should only be introduced at entry points and in months where all the baseline capacity had been allocated as MSEC.

Transco’s Response

Transco considers that if there is little or no effective competition for capacity then this can create problems for any auction regime, whatever the floor price. Transco agrees that having

zero DSEC floor prices at entry points where there is little or no competition may lead to more capacity at such terminals being sold as DSEC.

In recognition of the limited degree of competition at some entry points, the proposed Licence drafting published by Ofgem indicates that the obligation to offer capacity in a clearing allocation – which Ofgem suggests means offering capacity with a zero reserve price – should be subject to the wider objectives for Transco’s network charging that are contained in amended standard condition 4 of the GT licence. Transco’s view is that the available evidence on market concentration supports a conclusion that competition for DSEC is likely to be limited at all entry points.

3.2 Interaction of Daily, Monthly and Long-term Capacity Auctions

Two respondents (BGT INN) expressed concerns about the extent to which the availability of a potentially free firm daily product would undermine monthly and interruptible capacity products. One of these (INN) thought that the proposed change could devalue the long-term auctions and any investment signals arising from them.

Transco’s Response

Transco acknowledges that reducing the DSEC floor price can only increase its attractiveness relative to other products.

3.3 Process and Timing Concerns

Three respondents (INN SGD SSE) had concerns regarding the consultation process. Two respondents (INN SSE) stated that it was difficult to comment meaningfully on the proposal when they had not yet seen the licence modification relating to it. Another (SGD) thought that the interaction with proposed licence changes was leading to rushed consultations with the result that the issues were not getting the attention they deserved.

Further, three respondents (BGT INN SSE) were concerned that the proposal had been raised just before the MSEC auction round. Two respondents (BGT SSE) thought that this would create more uncertainty for Shippers and could impact the prices realised in the monthly auctions. Another (INN) did not support any change to the relative valuation of monthly, daily and interruptible capacity products during the MSEC auction period for this same reason and thought that the issue should be considered once the current MSEC round was finished and the licence changes were known.

Transco’s Response

Transco recognises that it would have been preferable to know the proposed licence wording prior to consultation on the methodology change. However the expected short time between the licence being finalised and its operation did not allow sufficient time for later consultation.

3.4 Treatment of DSEC Revenue within Transco’s Price Controls

Two respondents (INN SSE) sought clarification regarding how DSEC revenue would be treated under Transco’s new price control and System Operator incentives and, in particular, at what stage such revenues would be included within the incentive regime.

Transco's Response

Transco believes the proposed licence drafting which has now been published provides the clarification sought.

3.5 Alternative Approaches to Meeting the Proposed Licence Obligation

No alternative approaches to meeting the proposed licence obligation, requiring Transco to offer unsold capacity in a market that it is allowed to clear, were suggested. One respondent (PG) stated that the proposal was the best possible option to enable the market to clear.

4. Conclusion

Transco welcomes the comments on the proposal contained within PC72 and acknowledges the validity of some of the concerns raised. In light of the issues raised and the detailed Licence drafting now published, Transco has decided not to propose the methodology change, as outlined in PC72, at this time.